



## INTER CA – MAY 2018

Sub: Advanced Accounts & Accounts

Topics: Average Due Date, Self-Balancing Ledger, Investment Accounts, Underwriters Liability, Insurance Company Final Accounts, Departmental Accounts

Test Code – M20

Branch: MULTIPLE Date: 07.01.2018

(50 Marks)

Note: All questions are compulsory.

### Question 1 (8 marks)

#### Books of A Pvt. Ltd.

#### Investment in 13.5% Convertible Debentures in P Ltd. Account

(Interest payable 31<sup>st</sup> March & 30<sup>th</sup> September) (4 marks)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
2016					2016				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Equity share	1,10,000		1,12,108
					Dec.31	By Bank			
						(See note1)		3,713	
					Dec.31	By Balance c/d	4,40,000	14,850	4,48,434
		<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>			<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>

Note 1: ` 3,713 received on 31.12.2016 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

#### Investment in Equity shares in P Ltd. Account (2 marks)

Date	Particulars	Nominal	Amount	Date	Particulars	Nominal	Amount
2016				2016			
Dec 31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		<u>1,00,000</u>	<u>1,12,108</u>			<u>1,00,000</u>	<u>1,12,108</u>

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes: (2 marks)

1. Interest paid on ` 5,00,000 purchased on May 1<sup>st</sup>, 2016 for the month of April 2016, as part of purchase price:  $5,00,000 \times 13.5\% \times 1/12 = ` 5,625$
2. Interest received on 30<sup>th</sup> Sept. 2016
 

$\text{On ` 5,00,000} = 5,00,000 \times 13.5\% \times \frac{1}{2} = 33,750$

$\text{On ` 2,50,000} = 2,50,000 \times 13.5\% \times \frac{1}{2} = \underline{16,875}$

Total ` 50,625
3. Interest paid on ` 2,50,000 purchased on Aug. 1<sup>st</sup> 2016 for April 2016 to July 2016 as part of purchase price:
 

$2,50,000 \times 13.5\% \times 4/12 = ` 11,250$
4. Loss on Sale of Debentures
 

Cost of acquisition 2,03,83

$(` 5,19,375 + ` 2,45,000) \times ` 2,00,000 / ` 7,50,000 = 3$  2,06,00

Less: Sale Price (2000 x 103) = 0

Profit on sale = ` 2,167
5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct -Dec. 2016
 

$1,10,000 \times 13.5\% \times 3/12 = ` 3,713$
6. Cost of Debentures converted to Equity Shares
 

$(` 5,19,375 + ` 2,45,000) \times 1,10,000 / 7,50,000 = ` 1,12,108$
7. Cost of Balance Debentures
 

$(` 5,19,375 + ` 2,45,000) \times ` 4,40,000 / ` 7,50,000 = ` 4,48,434$
8. Interest on Closing Debentures for period Oct. -Dec. 2016 carried forward (accrued interest)
 

$` 4,40,000 \times 13.5\% \times 3/12 = ` 14,850$

**Question 2 (4 marks)**

**Calculation of Average Due Date**  
**Computation of products for Thick's payments**  
**(Taking 9.7.13 as base date)(1 mark)**

Due Date	Amount	No. of days from base date to due date	Product
9.7.13	7,200	0	0
14.8.13	12,200	36	4,39,200
	<u>19,400</u>		<u>4,39,200</u>

**Computation of products for Thin's payments (Base date = 9.7.13) (1 mark)**

Due Date	Amount	No. of days from base date to due date	Product
15.7.13	18,000	6	1,08,000
31.8.13	16,500	53	8,74,500
	<u>34,500</u>		<u>9,82,500</u>

Excess of Thin's products over Thick [9,82,500-4,39,200] 5,43,300  
 Excess of Thin's amounts over Thick [34,500-19,400] 15,100

Number of days from base date to date of settlement is =  $\frac{543300}{15,100}$  = 36 days (approx.)  
**15,100 (1 mark)**

Hence, the date of settlement of the balance amount is 36 days after 9<sup>th</sup> July, i.e. 14<sup>th</sup> August. Thus, on 14<sup>th</sup> August, 2013, Thin has to pay ` 15,100 to Thick. **(1 mark)**

**Question 3 (12 marks)**

(i)

**Department Trading Account**

**For the year ending on 31.03.2013**

**In the books of Head Office (2 marks)**

<i>Particulars</i>		<i>Particulars</i>	
To Opening Stock	65,000	By Sales	3,00,000
To Purchases	2,00,000	By Shortage	1,000
	58,88		22,88
To Gross Profit c/d	<u>0</u>	By Closing Stock	<u>0</u>
	<u>3,23,880</u>		<u>3,23,880</u>

(ii) **Memorandum stock account (for Department A) (at selling price) (4 marks)**

<i>Particulars</i>		<i>Particulars</i>	
To Balance b/d (` 65,000+25% of ` 65,000)	81,250	By Profit & Loss A/c (Cost of Shortage)	1,000
To Purchases (` 2,00,000 + 25% of ` 2,00,000)	2,50,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (` 1,000 x 25%)	250
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	1,200
		By Debtors A/c (Sales)	3,00,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	600
		By Balance c/d	<u>28,200</u>
	<u>3,31,250</u>		<u>3,31,250</u>

(iii) **Memorandum Departmental Mark-up Account (4 marks)**

<i>Particulars</i>		<i>Particulars</i>	
To Memorandum Departmental Stock A/c (` 1,000 × 25/100)	250	By Balance b/d (` 81,250 x 25/125)	16,250
To Memorandum Departmental Stock A/c	1200	By Memorandum Departmental Stock A/c(2,50,000 x 25/125)	50,000
To Memorandum Departmental Stock A/c	600		
To Gross Profit transferred to Profit & Loss A/c	58,880		
To Balance c/d [(` 28,200 + 400*) x 25/125 - 400]	<u>5,320</u>		
	<u>66,250</u>		<u>66,250</u>

\*[` 1,200 × 5,000/15,000] = 400

**Working Notes:**

(i) **Calculation of Cost of Sales (1 mark)**

A	Sales as per Books	3,00,000
B	Add: Mark-down in opening stock (given)	600
C	Add: mark-down in sales out of current Purchases (` 1,200 x 10,000 /15,000)	<u>800</u>
D	Value of sales if there was no mark-down (A+B+C)	3,01,400
E	Less: Gross Profit (25/125 of ` 3,01,400) subject to Mark Down (` 600 + ` 800)	(60,280) <u>          </u>
F	Cost of sales (D-E)	<u>2,41,120</u>

**(ii) Calculation of Closing Stock (1 mark)**

A	Opening Stock	65,000
B	Add: Purchases	2,00,000
C	Less: Cost of Sales	(2,41,120)
D	Less: Shortage	<u>(1,000)</u>
E	Closing Stock (A+B-C-D)	22,880

**Question 4 (8 marks)**

When the benefit of firm underwriting is given to individual underwriters

**(i) Total marked applications: (1/2 mark)**

M	N	O	P	
2,50,000	2,00,000	2,00,000	80,000	= 7,30,000

**(ii) Shares subscribed excluding firm underwriting (1/2 mark)**

Total applications	8,00,000	shares
Less : Marked applications	<u>(7,30,000)</u>	shares
Unmarked	<u>70,000</u>	

**Statement showing Liability of underwriters (2 marks)**

	M	N	O	P	Total
Gross liability	3,50,000	3,00,000	2,50,000	1,00,000	10,00,000
Less: Marked applications	<u>(2,50,000)</u>	<u>(2,00,000)</u>	<u>(2,00,000)</u>	<u>(80,000)</u>	<u>(7,30,000)</u>
	1,00,000	1,00,000	50,000	20,000	2,70,000
Less: Unmarked (in Gross Ratio)	<u>(24,500)</u>	<u>(21,000)</u>	<u>(17,500)</u>	<u>(7,000)</u>	<u>(70,000)</u>
	75,500	79,000	32,500	13,000	2,00,000
Less: Firm underwriting	<u>(30,000)</u>	<u>(50,000)</u>	<u>40,000</u>	<u>(18,500)</u>	<u>(1,38,500)</u>
	45,500	29,000	(7,500)	(5,500)	61,500
Less: Surplus of 'O' and 'P' allotted to M, & N (35:30)	<u>7,000</u>	<u>6,000</u>	<u>7,500</u>	<u>5,500</u>	<u>-</u>
Net liability	<u>38,500</u>	<u>23,000</u>	<u>-</u>	<u>-</u>	61,500

**(iv) Statement of underwriters' liability (2 marks)**

	M	N	O	P	Total
Firm	30,000	50,000	40,000	18,500	1,38,500
Others	<u>38,500</u>	<u>23,000</u>	<u>-</u>	<u>-</u>	<u>61,500</u>
TOTAL	<u>68,500</u>	<u>73,000</u>	<u>40,000</u>	<u>18,500</u>	<u>2,00,000</u>

(v) Amounts due from underwriters  
(1 ½ marks)

	M	N	O	P	Total
Shares to be subscribed as per (iv) above	68,500	73,000	40,000	18,500	2,00,000
Amount due @ ` 60 per share	41,10,000	43,80,000	24,00,000	11,10,000	1,20,00,000
Less: Commission due on shares underwritten	(10,50,000)	(9,00,000)	(7,50,000)	(3,00,000)	(30,00,000)
	<u>30,60,000</u>	<u>34,80,000</u>	<u>16,50,000</u>	<u>8,10,000</u>	<u>90,00,000</u>

(vi) Commission payable to underwriters (1 mark)

M	10,00,000 X 100 X 35% X 3% =	10,50,000
N	10,00,000 X 100 X 30% X 3% =	9,00,000
O	10,00,000 X 100 X 25% X 3% =	7,50,000
P	10,00,000 X 100 X 10% X 3% =	3,00,000

Journal Entry (1/2 mark)

Bank A/c		5,70,00,000	
Underwriting Commission A/c	Dr.	30,00,000	
To Equity share Application A/c			6,00,00,000

Question 5 (12 marks)

Form B – RA (Prescribed by IRDA) Superb General Insurance Co. Ltd

Revenue Account for the year ended 31<sup>st</sup> March, 2016 Fire and Marine Insurance Businesses (4 marks)

	Schedule	Fire Current Year	Marine Current Year
		Rs.	Rs.
Premiums earned (net)	1	4,27,500	1,40,000
Profit / (Loss) on sale / redemption of investments		—	—
Others (to be specified)			
Interest, Dividends and Rent – Gross		—	—
Total (A)		<u>4,27,500</u>	<u>1,40,000</u>
Claims incurred (net)	2	82,000	88,000
Commission	3	40,000	20,000
Operating expenses related to Insurance business	4	70,000	50,000
Premium Deficiency			
Total (B)		<u>1,92,000</u>	<u>1,58,000</u>
Profit from Fire / Marine Insurance business (A-B)		2,35,500	(18,000)

Schedules forming part of Revenue Account (1 1/2 marks)

Schedule –1 Premiums earned (net)		Fire Current Year	Marine Current Year
		Rs.	Rs.
Premiums from direct business written		4,80,000	3,50,000
Less: Premium on reinsurance ceded		<u>(25,000)</u>	<u>(15,000)</u>
Total Premium earned		4,55,000	3,35,000
Less: Change in provision for unexpired risk		<u>(27,500)</u>	<u>(1,95,000)</u>
		<u>4,27,500</u>	<u>1,40,000</u>
Schedule – 2 Claims incurred (net)		82,000	88,000
Schedule – 4 Operating expenses related to insurance business Expenses of Management		70,000	50,000

Form B-PL

Superb General Insurance Co. Ltd.

Profit and Loss Account for the year ended 31<sup>st</sup> March, 2016 (4 marks)

Particulars	Schedule	Current Year	Previous Year
		Rs.	Rs.
<b>Operating Profit/(Loss)</b>			
(a) Fire Insurance		2,35,500	
(b) Marine Insurance		(18,000)	
(c) Miscellaneous Insurance		—	
<b>Income From Investments</b>			
Interest, Dividend & Rent–Gross		1,29,000 <sup>#</sup>	
<b>Other Income (To be specified)</b>			
Total (A)		<u>3,46,500</u>	
<b>Provisions (Other than taxation)</b>			
Depreciation		9,000	
<b>Other Expenses –Director’s Fee</b>		<u>80,000</u>	
Total (B)		<u>89,000</u>	
Profit Before Tax		2,57,500	
Provision for Taxation		99,138	

Working Notes: (2 ½ mark)

		Fire	Marine
		Rs.	Rs.
1.	Claims under policies less reinsurance		
	Claims paid during the year	1,00,000	80,000
	Add: Outstanding on 31 <sup>st</sup> March, 2016	<u>10,000</u>	<u>15,000</u>
		1,10,000	95,000
	Less : Outstanding on 1 <sup>st</sup> April, 2015	<u>(28,000)</u>	<u>(7,000)</u>
		<u>82,000</u>	<u>88,000</u>
2.	Expenses of management		
	Expenses paid during the year	60,000	45,000
	Add: Outstanding on 31 <sup>st</sup> March, 2016	<u>10,000</u>	<u>5,000</u>
		<u>70,000</u>	<u>50,000</u>

3.	Premiums less reinsurance		
	Premiums received during the year	4,50,000	3,30,000
	Add: Outstanding on 31 <sup>st</sup> March, 2016	<u>30,000</u>	<u>20,000</u>
		4,80,000	3,50,000
	Less : Reinsurance premiums	<u>(25,000)</u>	<u>(15,000)</u>
		<u>4,55,000</u>	<u>3,35,000</u>

A. Reserve for unexpired risks is 50% of net premium for fire insurance and 100% of net premium for marine insurance. Reserve for unexpired risks for fire insurance = Rs.4,55,000 X 50% = Rs.2,27,500. Opening Balance in reserves for unexpired risk for fire insurance was Rs.2,00,000. Hence, additional transfer to reserve for fire insurance in the year will be Rs.27,500. On similar basis of calculation, the additional transfer to reserve for marine insurance will be Rs.1,95,000

**B. Provision for taxation account**

	Rs.		Rs.
31.3.2016 To Bank A/c (taxes paid)	60,000	1.4.2015 By Balance b/d	85,000
31.3.2016 To Balance c/d	1,24,138	31.3.2016 By P & L A/c (Bal Fig)	99,138
	<u>1,84,138</u>		<u>1,84,138</u>

# Interest and dividend in case can't be bifurcated between fire and marine thus taken to profit and loss account.

**Question 6 (6 Marks)**

**General Ledger Adjustment Account in Debtors Ledger**

Date	Particulars		Date	Particulars	
01.04.2016	To Balance b/d (1/2 Mark)	4700	1.4.2016	By Balance b/d (1/2 Mark)	179100
01.04.2016	To Debtors ledger adjustment A/c : (2 Marks )		1.4.2016	By Debtors ledger adjustment A/c : (2 Marks )	
to			to		
30.4.2016	Cash received	8,62,850	30.4.2016	Credit sales	997700
	Sales Returns	16,550		Cash	3,000
				returns	
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.4.2016	By Balance c/d (1/2 Mark)	4,900
30.04.2016	To balance c/d (1/2 Mark)				
	(bal.fig)	<u>2,48,850</u>			
		<u>11,88,450</u>			<u>11,88,450</u>

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